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Governor
SENATE TAXATION

EXHIBIT NO. 9

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FILE NO. HB-637

Memorandum

To: Senator Jim Peterson
Senate Taxation Committee

From: Brian Olsen
Income Tax Specialist

Date: April 12, 2007

Subject: State-by-state treatment of military income for residents

During the hearing for HB 637 which expands the exemption for military income received by Montana residents, the question was asked how other states treat military income received by their residents.

The attached chart lists how 40 states and the District of Columbia tax or exempt the military income earned by their residents. Federal law allows combat pay to be exempted federally in certain instances. (For example, officers can only exempt a portion of their combat pay) If the state provides no additional exemption beyond the federal provisions, the chart lists "None" in the right-hand column.

Income related to military service also includes items such as reenlistment bonuses, survivor benefits, exit bonuses and separation pay. The treatment of those items is not described because HB 637 does not affect Montana's treatment of those items.

<i>State</i>	<i>Income excluded/exempted for residents</i>
Alabama	Active-duty combat pay (officers and enlisted personnel)
Arizona	Active-duty military pay
Arkansas	Combat pay and first \$9,000 of military compensation for enlisted (\$6,000 for officers)
California	None
Colorado	None
Connecticut	None
Delaware	None
District of Columbia	None
Georgia	Combat pay of guard and reserve
Hawai'i	First \$2,998 of guard and reserve pay
Idaho	Active-duty pay for Idaho residents stationed outside Idaho
Illinois	Active-duty military income
Indiana	First \$2,000 of military income
Iowa	Active-duty guard and reserve pay received for service performed on or after Jan. 1, 2003, in Operation Iraqi Freedom, Operation Noble Eagle or Operation Enduring Freedom.
Kansas	Enlisted member, warrant officer or commissioned warrant officer and serving in a combat zone during any part of any month, military pay for that month is excluded from taxable income. Also exclude military pay earned while hospitalized as a result of wounds, disease or injury incurred in the combat zone.
Kentucky	The Kentucky Legislature in 2006 exempted all income earned by soldiers killed in the line of duty for the year of death and the year prior to the year of death. The income exclusion applies to income from sources of the decedent, not just military income. The exclusion includes all federal and state death benefits payable to the estate or any beneficiaries.
Louisiana	First \$29,999 of military pay if served 120 or more consecutive days
Maine	None
Maryland	First \$15,000 of military pay if service is outside the U.S. and its possessions and total military income is below \$30,000
Massachusetts	None
Michigan	Pay for military service in the armed forces
Minnesota	Active-duty pay for services performed outside Minnesota
Mississippi	\$15,000 for guard and reserve pay. Combat pay and hazardous-duty pay for active service below the grade of commissioned officer
Missouri	Combat pay
Nebraska	None
New Jersey	None
New Mexico	None
New York	Pay received while under state active duty orders and US Title 10 orders

North Carolina	None
North Dakota	First \$1,000 of active-duty service, reserves or service in North Dakota National Guard. Also allowed an exclusion of up to \$300 per month for service outside the U.S.
Ohio	None
Oklahoma	First \$1,500 of active-duty pay and POW/MIA benefits
Oregon	All active-duty pay earned outside Oregon and up to \$3,000 of active-duty pay earned in Oregon
Pennsylvania	All active-duty pay earned outside Pennsylvania and POW/MIA benefits
Rhode Island	None
South Carolina	Pay received for weekend drills and customary training when serving in the reserve or National Guard
Utah	None
Vermont	Military pay for full-time service earned outside Vermont. For 2006, first \$2,000 of National Guard and reserve pay if federal AGI is less than \$50,000
Virginia	Up to \$15,000 of military basic pay. Exemption is reduced with military pay exceeds \$15,000 and is completely phased out when military pay reaches \$30,000
West Virginia	If the military resident spends 30 days or fewer in West Virginia, their military income is exempt. Guard and reserve pay for Operation Enduring Freedom or domestic security duty is exempt
Wisconsin	Certain guard and reserve members may exclude military pay received during a period of time while called to active duty